

CBO REPORT

Sequestration Preview Report for Fiscal Year 1995

**(Reprint of Appendix A of "The Economic and Budget Outlook:
Fiscal Years 1995-1999," January 1994)**

January 27, 1994



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The Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act), as amended, requires the Congressional Budget Office (CBO) to issue various sequestration reports each year: a preview report five days before the President's budget submission in January or February, an update report on August 15, and a final report 10 days after the end of a session of the Congress. The sequestration preview report must contain estimates of the following items:

- o the limits on discretionary spending and any adjustments to them;
- o the amount by which direct spending or receipt legislation enacted since the Budget Enforcement Act of 1990 has increased or decreased the deficit; and
- o the maximum deficit amount.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information (summarized in Table A-1).

CBO ordinarily issues its annual *Economic and Budget Outlook* on the date specified for submission of its sequestration preview report--five days before the President's budget is submitted--and includes the sequestration report in that volume, where it will be readily available to interested readers. Although this year's *Economic and Budget Outlook* is scheduled for release 11 days before the submission date for the

President's budget, the sequestration report is included. In the event that anything affecting the sequestration report occurs during the additional six days before the President's budget is submitted, CBO will notify the Congress and OMB of the appropriate modification to the sequestration report.

Discretionary Sequestration Report

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) amended the Balanced Budget Act and established new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998. But it left in place the existing discretionary spending limits for fiscal years 1993 through 1995 and the discretionary sequestration procedures--including the requirements to adjust the discretionary limits--established by the Budget Enforcement Act (BEA). CBO's estimates of the limits on discretionary spending for fiscal years 1994 through 1998 are shown in Table A-2.

The estimated spending limits in this report differ from those in CBO's December 1993 final sequestration report for two reasons. First, the estimates have been revised to reflect differences between the spending limits in CBO's final report and those specified in OMB's December 1993 final sequestration report. Second, the limits have been changed by

adjustments that the Balanced Budget Act specifies must be made in a preview report. The limits do not include any prospective adjustments--changes that cannot legally be made until future sequestration reports. (The CBO baseline for discretionary spending detailed in Chapter 2 is based on spending limits that do include CBO's estimate of such prospective adjustments--namely, for the special budget authority allowance in the final sequestration report for fiscal year 1995 and for differences between anticipated and actual inflation in future preview reports. As a result, the estimated caps described in Chapter 2 are slightly higher than the caps depicted here. The baseline caps do not include adjustments in this preview report that were recognized after the baseline had been completed.)

Technical Differences from OMB's December 1993 Final Report

The Balanced Budget Act requires both CBO and OMB to calculate the changes in the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling in determining whether enacted appropriations fall within the limits or whether a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory.

Acknowledging OMB's statutory role, CBO adjusts its previous estimates to conform to the spending limits in the most recent OMB sequestration report before making the additional adjustments required for the current report.

The 1994 limit on domestic discretionary budget authority in CBO's December 1993 final report exceeded that in the subsequent OMB final report by \$755 million. This discrepancy results from a conceptual difference in estimating contingent emergency appropriations. The Balanced Budget Act requires that OMB and CBO adjust the spending limits to reflect enactment of appropriations that are designated as emergency expenditures both by the legislation providing the appropriations and by the President. Contingent emergency appropriations are appropriations that have been designated as emergency funding in the appropriation act but are available for obligation only if the President also designates them as emergency funding. Because no further Congressional action is necessary to make these funds available for obligation, CBO includes the full amount of these contingent appropriations in its estimates and adjusts the spending limits accordingly. OMB includes in its estimates and cap adjustments only the contingent appropriations that the President has designated as emergency funding and made available for obligation. The adjustment that

Table A-1.
CBO Estimates of Discretionary Spending Limits, Changes in the Deficit,
and the Maximum Deficit Amount for Fiscal Years 1994 Through 1998 (in millions of dollars)

	1994	1995	1996	1997	1998
Discretionary Spending Limits					
Budget authority	513,268	515,010	516,734	525,608	528,102
Outlays	542,672	539,539	546,127	545,544	545,653
Changes in the Deficit Since the Budget Enforcement Act	-34	-972	-470	-409	-1,013
Maximum Deficit Amount	n.a.	244,000	n.a.	n.a.	n.a.

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

Table A-2.

CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 Through 1998 (In million of dollars)

	1994		1995		1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Limits in CBO's December 1993 Final Report	513,932	542,798	517,398	540,653	519,142	547,771	528,079	547,513	530,639	547,875
Adjustments										
Technical differences from OMB's December 1993 final report	-755	-192	0	-155	0	-38	0	-11	0	0
Contingent emergency appropriations designated since OMB's December 1993 final report	91	66	0	16	0	5	0	2	0	2
Concepts and definitions										
OPIC budget authority	0	0	-157	0	-158	0	-158	0	-160	0
Category changes										
Bankruptcy judges' salaries	0	0	-48	-48	-50	-50	-52	-51	-54	-53
Wetland reserve	0	0	0	53	0	0	0	0	0	0
Funds for strengthening markets	0	0	-30	-27	0	-3	0	0	0	0
Cooperative work trust fund	0	0	0	-21	0	0	0	0	0	0
Rehabilitation services	0	0	0	0	0	-2	0	0	0	0
Emergency preparedness grants	0	0	-13	-1	0	-6	0	0	0	0
General Services Administration	0	0	-12	-12	-12	-12	-12	-12	-12	-12
Black Lung benefits	0	0	22	22	20	20	19	19	18	18
National service initiative reappropriation	0	0	0	8	0	0	0	0	0	0
Subtotal	0	0	-238	-26	-200	-53	-203	-44	-208	-47
Change in 1993 inflation	0	0	-2,033	-834	-2,088	-1,466	-2,144	-1,810	-2,202	-2,063
Credit subsidy reestimates	0	0	-117	-115	-120	-92	-124	-106	-127	-114
Total	-664	-126	-2,388	-1,114	-2,408	-1,644	-2,471	-1,969	-2,537	-2,222
Limits as of January 27, 1994 ^a	513,268	542,672	515,010	539,539	516,734	546,127	525,608	545,544	528,102	545,653

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; OPIC = Overseas Private Investment Corporation.

a. The limits assumed in CBO's January 1994 baseline discussed elsewhere in this volume are lower than those shown here, primarily because the baseline caps include estimated adjustments that will be made in later sequestration reports.

CBO's final report made to the limit on domestic budget authority included \$755 million for contingent emergency appropriations that had not been designated by the President at the time of OMB's report.

Similarly, the limit on domestic discretionary outlays in CBO's December report exceeded that in OMB's final report by \$192 million in 1994, \$155 million in 1995, \$38 million in 1996, and \$11 million in 1997, largely because of the scoring of the contingent emergencies the President did not designate. The difference was partially offset in 1994 because OMB made a larger adjustment for the special outlay allowance in its final report than did CBO. That allowance is available if the estimated budget authority that is enacted equals or falls below the spending limit but outlays exceed their limit. OMB estimated that 1994 domestic outlays overshot their limit by \$822 million before the special outlay allowance was applied, and made a corresponding adjustment to the limit. CBO estimated that outlays exceeded the limit by \$462 million and adjusted the limit by that smaller amount.

Contingent Emergency Appropriations Designated Since OMB's December 1993 Final Report

No emergency appropriations have been enacted since OMB's December 1993 final sequestration report. However, several contingent emergency appropriations that had not been designated before OMB's report was issued--and were therefore not included in the adjustments in its report--have subsequently been designated. The adjustments to the limit on 1994 budget authority and to the limits on outlays in 1994 through 1998 reflect the effects of the budget authority newly available as a result of these emergency designations.

Concepts and Definitions

The Balanced Budget and Emergency Deficit Control Act provides for adjustments that reflect changes in budgetary concepts and definitions. One such adjustment made in this report reflects a revised

method of counting budget authority for the Overseas Private Investment Corporation's noncredit programs account. The account is funded by offsetting collections, and CBO and OMB have assumed that the negative budget authority representing the collections was completely offset by the authority to spend those collections. However, not all of the collections are available for obligation in the year they are received. Under the definition of budget authority adopted as part of the BEA, only the amount available for obligation should be counted as positive budget authority. The account should therefore reflect negative budget authority equal to the amount of collections not available for obligation. CBO will begin scoring appropriation bills accordingly, and the limits on budget authority have been reduced to account for this change.

Adjustments for changes in budgetary categories are also made under the concepts and definitions authority. One such adjustment involves a true change in classification of spending from discretionary to mandatory. The lists of mandatory and discretionary appropriation accounts that accompanied the BEA specified that the account providing funding for "Courts of Appeals, District Courts, etc." was split--annual appropriations for salaries of judges would be counted as mandatory, and all other funding in the account would be counted as discretionary. Both CBO and OMB have counted only the salaries of judges specifically authorized under Article III of the Constitution as mandatory. CBO and OMB (after consultation with the budget committees) have agreed, however, that the salaries of bankruptcy judges are mandatory by statute--though not required by the Constitution--and both agencies will begin counting appropriations for salaries of bankruptcy judges as mandatory. The discretionary spending limits are reduced here to account for this change.

The other category changes made in this report result from the practice of assigning certain legislated changes in mandatory spending to the discretionary spending side of the Balanced Budget Act ledger and certain legislated changes in discretionary programs to the pay-as-you-go (PAYGO) side, which is generally supposed to deal with mandatory spending and tax legislation. OMB and the budget committees have determined that any costs or savings that result

from provisions in an appropriation act should be reflected in enforcement of the discretionary spending limits, even if the costs or savings are in a mandatory spending program. Similarly, any appropriation for a discretionary program provided in authorizing legislation is included in the PAYGO scorecard.

Changes in current year or budget year mandatory spending made in appropriation acts are included in the estimate of discretionary spending for that year, but appropriations for that year provided in authorizing legislation are not. Because estimates of discretionary spending attributed to future appropriation acts will include all such spending provided in previous years--whether in appropriation or authorization acts--and exclude mandatory spending provided in previous appropriation acts, the discretionary spending limits for future years are adjusted to ensure that the appropriations committees are held responsible for the future effects of changes in mandatory programs included in their legislation, but are not affected by appropriations for discretionary programs provided by other committees. Without compromising Balanced Budget Act enforcement, adjustments of this sort provide a simple alternative to permanently tracking all of the effects of appropriation actions on mandatory spending and all discretionary spending provided by authorizing legislation.

For example, the fiscal year 1994 appropriation act for the Department of the Interior and related agencies (Public Law 103-138) contained a provision that reduced mandatory spending from the Forest Service Cooperative Work Trust Fund by \$21 million in 1994, but increased spending by \$21 million in 1995. The 1994 savings were included in the estimate of the 1994 appropriation act, but rather than attribute the 1995 cost to next year's appropriation act, the 1995 discretionary outlay limit has been reduced by \$21 million. Similarly, a reappropriation included in the National Service Trust Act (Public Law 103-82), an authorizing act, increased outlays from a discretionary account by \$12 million in 1994 and \$8 million in 1995 and was reflected in the PAYGO scorecard. Because the \$8 million outlay will be attributed to an appropriation act as a prior-year discretionary outlay in 1995, the discretionary outlay limit for 1995 has been increased by \$8 million. This ensures that the appropriations com-

mittees are not adversely affected by an action of the authorizing committee that has already been counted for purposes of the Balanced Budget Act.

Change in 1993 Inflation

The Balanced Budget Act requires that the discretionary spending limits for 1995 through 1998 be adjusted for the difference between the actual inflation rate in 1993 and the rate for that year anticipated when the BEA was enacted in 1990. Because actual inflation (measured by the implicit gross domestic product deflator) was lower in 1993 than had been expected in 1990, the adjustment reduces the spending limits--for budget authority, by around \$2 billion each year, and for outlays, by about \$800 million in 1995 to \$2 billion in 1998.

CBO estimated the inflation adjustment using the method that OMB adopted in its 1993 sequestration preview report. This method entails adjusting only nonpersonnel costs instead of adjusting all discretionary spending. Although CBO believes there is no justification for OMB's interpretation of the inflation adjustment provision in the Balanced Budget Act, OMB's cap adjustments are controlling, and CBO follows its lead in order to avoid confusion.

Credit Subsidy Reestimate

The Balanced Budget Act required that the discretionary spending limits be adjusted in the fiscal year 1993 and 1994 sequestration preview reports to reflect changes in the estimated subsidy rate for credit programs. This provision was intended to hold the appropriations committees harmless for increases in the estimated subsidy cost of direct loans and loan guarantees and to prevent a windfall if the subsidy estimates were reduced. Policymakers feared that the subsidy estimates, first required in 1992 when the Credit Reform Act of 1990 was implemented, could be quite volatile because the information required to make the estimates was incomplete at best at that time. The Balanced Budget Act also provides that a credit reestimate adjustment be made in the 1995 preview report if the President chooses to adjust the maximum deficit amounts to account for revised economic and technical assumptions, as he has

indicated will occur in OMB's forthcoming preview report. The reductions shown in Table A-2 reflect CBO subsidy rates that are lower than the rates OMB used for fiscal year 1994. The largest adjustments result from different estimates of the subsidies involved in mortgage-backed guarantees of the Government National Mortgage Association; general- and special-risk guarantees of the Federal Housing Administration; and direct loans of the Rural Housing Insurance Fund.

Pay-As-You-Go Sequestration Report

If changes in direct (mandatory) spending programs or governmental receipts enacted since the BEA

increase the combined current year and budget year deficits, a pay-as-you-go sequestration is triggered at the end of the Congressional session, and nonexempt mandatory programs are cut enough to eliminate the overage. The pay-as-you-go provisions of the Balanced Budget Act had applied through fiscal year 1995, but OBRA-93 extended them through 1998.

As is the case with the discretionary spending limits, the Budget Enforcement Act requires both CBO and OMB to estimate the net increase in the deficit resulting from direct spending or receipt legislation. OMB's estimates are controlling, however, in determining whether a sequestration is required. CBO therefore adopts the estimate of the change in the deficit specified in OMB's most recent sequestration report as the starting point for its estimate. Table A-3 shows CBO's estimate of the

Table A-3.
Budgetary Effects of Direct Spending and Receipt Legislation
Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998
Total from OMB's December 1993 Final Report ^a	-26	-971	-473	-410	-521
Legislation Enacted Since OMB's Final Report					
North American Free Trade Agreement Implementation Act (P.L. 103-182)	-1	0	-1	0	-493
Jefferson Commemorative Coin Act of 1993 (P.L. 103-186)	-7	-6	1	1	1
Government Securities Act Amendments of 1993 (P.L. 103-202) ^b	1	1	1	1	1
Coast Guard Authorization Act of 1993 (P.L. 103-206)	-1	-1	-1	-1	-1
Higher Education Technical Amendments of 1993 (P.L. 103-208)	<u>c</u>	<u>5</u>	<u>3</u>	<u>c</u>	<u>c</u>
Total	-8	-1	3	1	-492
Total Change in the Deficit Since the Budget Enforcement Act	-34	-972	-470	-409	-1,013

SOURCE: Congressional Budget Office.

NOTES: The following bills affected direct spending or receipts but did not increase or decrease the deficit by as much as \$500,000 in any year through 1998: Fresh Cut Flowers and Greens Promotion and Information Act (P.L. 103-190); Copyright Royalty Tribunal Reform Act (P.L. 103-198); Friendship Act (P.L. 103-199); Domestic Chemical Diversion Control Act of 1993 (P.L. 103-200); Resolution Trust Corporation Completion Act (P.L. 103-204); an act to Suspend Implementation of Certain Requirements of the Food Stamp Program until March 15, 1994 (P.L. 103-205); and an act to Provide Additional Authority for the Secretary of Veterans Affairs to Provide Health Care for Veterans of the Persian Gulf War (P.L. 103-210).

OMB = Office of Management and Budget; P.L. = Public Law.

a. Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, calls for a list of all bills enacted since the Budget Enforcement Act that are included in the pay-as-you-go calculation. Because the data in this table assume OMB's estimate of the overall changes in the deficit resulting from bills enacted through December 3, 1993, readers are referred to the lists of those bills included in Table 7 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1994* (December 10, 1993) and in previous sequestration reports issued by OMB.

b. Reductions in receipts are shown with a positive sign because they increase the deficit.

c. Less than \$500,000.

changes in the deficits for 1994 through 1998 that result from direct spending and receipt legislation enacted since the BEA (assuming OMB's estimates of changes in the deficit resulting from legislation enacted through December 3, 1993). Before the pay-as-you-go provisions were extended through 1998, PAYGO estimates did not include the effects of enacted legislation on deficits for 1996 through 1998. Therefore, the effects on deficits that are shown in Table A-3 for those years reflect only the effects of legislation enacted since OBRA-93.

CBO's estimate of changes in direct spending and revenues provided by legislation signed by the President since December 3, 1993--added to the total 1994 and 1995 deficit reduction of \$997 million that OMB estimated in its December 1993 final report--yields a net decrease in the combined 1994 and 1995 deficits of \$1,006 million. According to these calculations, no pay-as-you-go sequestration would be required for fiscal year 1995.

Deficit Sequestration Report

The BEA established procedures to enforce annual deficit targets through 1995. Those procedures were crafted in such a way that they have imposed no additional budgetary discipline beyond the constraints of the discretionary spending limits and the PAYGO requirement. OBRA-93 did not extend the provisions for enforcing deficit targets beyond their scheduled expiration at the end of 1995.

The 1995 maximum deficit target has no effect for two reasons. First, when the President submits the budget for fiscal year 1995, he will exercise the option provided by the Balanced Budget Act to adjust the deficit targets for revised economic and technical assumptions, in addition to making the required adjustments to account for changes in the discretionary caps and pay-as-you-go balances. Second, the assumptions used in preparing the President's budget must be used by OMB for all subsequent Balanced Budget Act calculations that year. Therefore, even if the budgetary outlook deteriorates after the President's budget is submitted, as long as the discretionary spending limits and pay-

as-you-go requirements are met, the deficit targets will be said to have been satisfied.

The BEA provides that the estimated maximum deficit amounts shall equal the projected on-budget baseline deficit (which excludes net spending by the Postal Service and Social Security receipts and benefit payments)--assuming that discretionary spending is held to the adjusted limits--minus any net deficit increases or decreases that appear on the PAYGO scorecard. CBO's current estimate of the maximum deficit amount for 1995, based on the economic and technical estimating assumptions described elsewhere in this volume, is shown in Table A-4. This figure excludes changes in the deficit resulting from enacted pay-as-you-go legislation, as well as assumed prospective adjustments to the 1995 discretionary spending limits for the special budget authority allowances. The figure includes Social Security administrative costs that are legally off-budget but that are covered by the discretionary spending limits as a result of OMB's interpretation of the Balanced Budget Act. As a result, it differs slightly from the on-budget deficit for fiscal year 1995 shown in the rest of this volume.

Since the December 1993 final sequestration report, CBO's estimate of the 1995 maximum deficit amount has decreased by \$20 billion. This decrease results primarily from changes in economic and technical assumptions.

Table A-4.
CBO Estimate of the Maximum Deficit Amount
for Fiscal Year 1995 (In billions of dollars)

	1995
Estimate in CBO's December 1993 Final Report	264
Adjustments	
Economic and technical reestimates	-19
Changes in discretionary spending limits	-1
Total	-20
Estimate as of January 27, 1994	244

SOURCE: Congressional Budget Office.

